

HIGH TECHNOLOGY BUSINESS

SEPTEMBER 1988

US \$5.00/CANADA \$6.00/UK £2.75

TECHNOLOGY
+
TRAINING =
A BETTER
BOTTOM LINE

- Should you trust market research?
- The battle for the broker's desk
- Success story: smart design tools cut costs

300

884266

MOVING THE MARKETS INTO THE FUTURE

In an age when information moves at the speed of light and computers process a hundred million instructions a second, financial traders still close deals with frenzied shouts and slips of paper. The New York Stock Exchange (NYSE) and others have been studying the idea of fully electronic markets for years, but automation remains incomplete because of the technological complexity of the task and the natural inertia of large, conservative institutions. Many floor brokers also resist the idea, because they are intimidated by computers, afraid for their jobs, or enamored of the clubbiness of the trading floor.

Despite these obstacles, automation has come to the routing of buy and sell orders on the NYSE and other exchanges, and the gathering of bids and offers on the London Stock Exchange. Reuter's Instinet service lets buyers and sellers negotiate using computer monitors, and Transvik Inc., a New York subsidiary of a Swedish merchant banking company, has developed an electronic trading system that could be used to totally automate a market. There is even one fully automated exchange, the Bermuda-based International Futures Exchange (Intex). This exchange is attempting to develop joint ventures with other exchanges that are seeking to automate and want to use Intex software, which has a proven track record of handling exchange requirements.

The NYSE's SuperDot system, created in 1984, enables member firms to send orders electronically to specialist trading posts on the exchange floor. This system bypasses floor brokers, who used to have to walk across the floor to deliver the order. When a transaction is completed, Super-

Dot picks up again, electronically reporting back to the member firm and submitting the order for comparison. But the process still requires a specialist to manually work the order on the floor. In essence, the computer has replaced the telephone or telex and the floor broker on the front end, and a keypunch operator on the back end. The actual trader remains.

SuperDot now carries 70 percent of NYSE orders. But this represents only 30 percent of the exchange's volume, because SuperDot is prohibited from handling big block trades. For example, SuperDot is limited to pre-opening market orders of 5,099 shares, and no more than 30,099 shares while the market is open.

Instinet, a service from Reuters Holdings, comes one step closer to creating a completely electronic market, letting buyers and sellers negotiate their transactions through computer monitors. When an order is posted on the network, an interested party can accept it or ask the seller to do better. After two Instinet subscribers agree on a transaction for a listed stock, it's transmitted to an Instinet floor representative, who takes the deal to a specialist for execution. Instinet trades of unlisted securities do not have to go through an exchange floor. According to a Reuters spokesman, most of the 1.44 billion shares traded on Instinet last year represented institutional trading on unlisted securities.

Even before Reuters bought Instinet in May 1987, it offered a similar trading network for foreign exchange, bonds, and bullion. Begun in 1981, the Reuters Monitor Dealing Service "replaced telephone and telex communi-

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